DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D. C. 20268-0001

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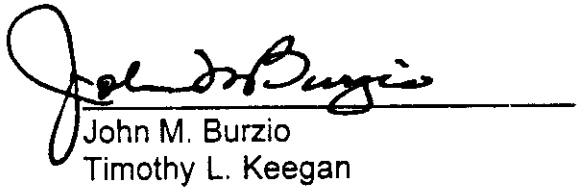
POSTAL RATE & FEE CHANGES, 1997

Docket No. R97-1

RESPONSES OF TIME WARNER INC.
TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE
TO WITNESS HALSTEIN STRALBERG (USPS/TW-T1-24-30)
(February 11, 1998)

Time Warner Inc. (Time Warner) hereby provides the responses of witness Halstein Stralberg (TW-T-1) to the following interrogatories of the United States Postal Service: USPS/TW-T1-24-29 (filed January 28, 1998); USPS/TW-T1-30 (filed January 30, 1998). Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,



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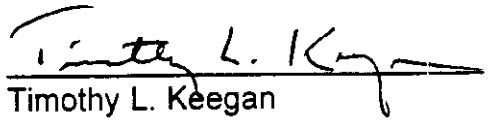
CERTIFICATE OF SERVICE

I hereby certify that I have this day served the instant document on all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.



Timothy L. Keegan

February 11, 1998

RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF UNITED STATES POSTAL SERVICE

USPS/TW-T-24. Please refer to MPA-T-2, page 7. Witness Cohen states that in Docket No. R94-1, it was your testimony that IOCS, and in particular the LIOCATT cost distribution system, was "inadequate to distribute mail processing costs in the radically different operating environment of the 1990s."

(a) Is witness Cohen's statement an accurate summary of your Docket No. R94-1 testimony, as it pertained to IOCS/LIOCATT? If not, please explain.

(b) Please confirm that the mixed-mail distribution method you propose is identical to the LIOCATT method, except that you propose to implement witness Bradley's variability analysis via the formula provided at page 10 (line 19) of your testimony, and that you propose to carry out the distributions by office group (BMC's, MODS 1&2 and non-MODS) in addition to the IOCS CAG stratum and basic function. If you do not confirm, please explain. If you believe there are additional differences, please provide a complete description of each additional difference.

USPS/TW-T-24.

a. I have looked in vain through the part of witness Cohen's testimony that you refer to for any mention of the word LIOCATT. The question therefore presents an inaccurate and misleading description of Cohen's current testimony, besides being inadequate as a summary of what I said about the IOCS in R94-1.

The fundamental problem that I identified with use of IOCS in today's environment is not one that can be fixed by replacing the LIOCATT with some other tally manipulation program. Rather, it is the inherent inability of the IOCS sampling approach to determine the true reasons for the large increases that have occurred in not handling costs. Any method of tabulating IOCS tallies and their associated costs will, when compared with similar tabulations taken ten years earlier, show a tremendous growth in not handling time spent at various operations, as well as in time spent on breaks, on empty equipment, etc. But no manner of manipulating these data can, without some additional intelligence, explain why these costs have increased so much or show the correct way to distribute responsibility for these costs among subclasses.

IOCS may record employees being at certain operations not handling mail at certain times. But it cannot explain why a clerk or mailhandler is at a certain place at a certain time, because the true reason is often simply that he was told to be there. What is really needed, therefore, is an in-depth analysis of how hiring, staffing and scheduling decisions are made by facility managers and their supervisors, including the types of criteria used in making such decisions. If, for example, such an analysis were to show that managers tend to load up some manual operations with extra staff in order to serve as backup for overflows or rejects of high priority automated

mail, then that would not only help explain the continuing decline in productivity at manual operations but would have fundamental implications for the attribution of cost responsibility at those manual operations. So too if it were demonstrated, as indicated by the Inspection Service, that employees are sometimes told to clock into opening units until given some other assignments, or when no longer needed at piece distribution operations.

The IOCS itself cannot provide this kind of information, which is needed in order to properly interpret IOCS data. Unfortunately, other than some efforts by teams of postal inspectors, there has been no serious attempt by the Postal Service to even begin to address these issues.

In my R94-1 testimony I also criticized the Postal Service's FY92-93 changes to the IOCS method of collecting mixed mail data, including its abandonment of all attempts at collecting class related data on mixed mail in containers, in favor of the same elaborate but flawed approach promoted by witness Degen in this docket. See TW-RT-1 at 12-13 (Tr. 25/11851-52) in R94-1. I believed then, and still believe today, that as long as there is no better information available with which to analyze mixed mail costs, it is after all safer, and likely to cause less distortion relative to the true costs, to use the more traditional approach for distributing these costs.

b. The main difference, besides the ones you mention, is that the costs defined as "mixed mail" in LIOCATT are not the same as the costs called "mixed mail" in my testimony. The LIOCATT distribution of mixed mail costs is applied to tallies with activity codes 5300-5750, including tallies that in reality represent not handling. My mixed mail method is not applied to the not handling portion of the costs with activity codes 5610, 5620, 5700 and 5750. On the other hand, it does include the tallies that represent handling of empty items and containers. The latter costs are traditionally attributed outside of the LIOCATT program, without regard to distinctions based on CAG or basic function.

Stated differently, I define mixed mail costs in the same way as they are defined in witness Degen's program, although my approach to distributing them is similar to that used in the LIOCATT. I distribute the mixed mail costs with activity codes 5610, 5620 and 5700 to subclasses based on the distribution of direct costs of respectively letters/cards, flats and IPP's/parcels. I distribute the remaining mixed mail costs based on all direct costs.

As I said in my testimony, I do not believe that this approach is ideal, but it is the best practical approach at this time, until the Postal Service provides more meaningful data that could lead to a more accurate distribution of the mixed mail costs.

RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF UNITED STATES POSTAL SERVICE

USPS/TW-T-25. Please refer to TW-T-1, Exhibit 1, page 2.

(a) Please break down the "Stralberg" column of Table 1-1 into "direct mail," "mixed mail," and "not handling mail" components. Please also provide your response, and any supporting calculations, in electronic spreadsheet format.

(b) Please isolate the effect of your proposed changes in mixed-mail distribution methodology by providing the cost distribution, broken down as in part (a) of this interrogatory, that would obtain if you distributed the IOCS tally costs "TC(I)" (TW-T-1, page 10) instead of the associated volume variable costs "PC(I)."

USPS/TW-T-25.

a. Please see Tables A-5, A-6 and A-7 in Appendix A of my testimony, which provide the information requested, separately for MODS offices, NonMODS offices and BMC's. These tables can also be found, in electronic format, in TW LR-H-1.[1]

b. Since it is not clear to me what exactly you mean by "isolate the effect of your proposed changes in mixed-mail distribution," I will comply with your request in the most straightforward manner possible, i.e. by replacing volume variable costs with tally costs in my calculations. Table A-6 referred to above already gives the direct, mixed and not handling tally costs attributed to each subclass in NonMODS offices by my method. Attached to this answer are Tables A-5T and A-7T which provide the corresponding information for MODS offices and BMC's.

If your purpose is to compare my method with the FY96 attribution of mail processing costs, then several factors must be considered. First, since my method is based on accrued costs and Bradley's volume variability factors, it includes the costs at remote encoding centers (REC's) as part of cost pool LD15, by extrapolating the LD15 tallies taken in mail processing facilities to include also costs as REC's, where no tallies are taken. In a distribution based on tally costs it would be necessary to add the REC costs separately, but it obviously is not known which portion of the REC costs are "not handling", "mixed mail" or "direct" costs, nor is it clear whether those terms even have meaning when applied to the REC's, which handle transmitted images rather than actual mail pieces.

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[1] The first sheet in spreadsheet MODS contains Table A-5 in cells BN4..BS49. The first sheet in spreadsheet NonMODS contains Table A-6 in cells AM3..AS48. The first sheet in spreadsheet BMC contains Table A-7 in cells AN3..AS48. In Table A-6, the direct, mixed and not handling costs shown are tally costs, which to get the corresponding volume variable costs must be multiplied by the 0.786 volume variability factor and with the ratio of NonMODS accrued costs to tally costs.

Second, replacing volume variable costs with tally costs, with no other changes, has the effect of attributing certain costs that in the traditional approach, as described in section 3.1 of USPS LR-H-1, are considered institutional. These costs would have to be moved from attributed to institutional in order to allow comparison with FY96 costs.

Third, as discussed in sections 1 and 2 of Appendix B in my testimony, certain "direct" costs traditionally shown as mail processing costs were transferred to cost segments 3.2 and 3.3 by Degen's method and I did not attempt to move those costs back to segment 3.1.

Finally, please note that "mixed mail" in my method defines a different set of costs than does the term when used in the traditional costing approach, and that my method also treats not handling costs differently.

Table A-5T: Distribution Of MODS Direct, Mixed And Not Handling Tally Costs ($1,000's)					
	Direct Costs	Mixed Mail Costs	Not Handling Costs	Distribute 5301-5345 Costs	Total
First-Class:					
Letters and Parcels	2,077,425	606,367	1,787,082	2,648	4,473,523
Presort Letters and Parcels	420,229	114,046	367,342	534	902,152
Postal Cards	1,221	362	1,040	2	2,626
Private Mailing Cards	65,598	18,950	58,621	85	143,254
Presort Cards	16,399	4,578	15,046	21	36,045
Priority Mail	177,517	56,977	158,251		392,745
Express Mail	34,918	12,687	36,355		83,960
Mailgrams	62	21	59		143
Periodicals:					
Within County	4,956	1,242	4,510	27	10,735
Regular Rate Publications	164,538	44,599	132,449	846	342,433
Nonprofit Publications	29,902	7,989	25,217	156	63,265
Classroom Publications	1,272	351	948	6	2,577
Standard A:					
Single Piece Rate	29,281	8,262	28,480	610	66,633
Regular Enh. Car. Rte.	75,833	18,742	63,797	1,464	159,837
Regular Other	556,673	151,129	461,910	10,815	1,180,526
Nonprofit Enh. Car. Rte.	9,726	2,416	8,048	187	20,377
Nonprofit Other	150,050	40,440	131,016	2,972	324,479
Standard B:					
Parcels Zone Rate	23,964	7,625	23,047	358	54,994
Bound Printed Matter	11,713	3,278	10,801	169	25,962
Special Standard	9,758	3,034	9,258	145	22,195
Library Mail	2,817	839	2,329	39	6,025
Penalty - U. S.P.S.	32,704	9,089	33,259		75,052
Free Mail	3,504	1,093	3,089		7,686
International Mail	94,221	34,152	89,463		217,836
Special Services:					
Registry	55,597	0	47,589		103,186
Certified	7,301	0	6,662		13,964
Insurance	201	0	293		494
COD	518	0	470		987
Special Delivery	341	0	1,302		1,643
Special Handling	117	0	65		183
Other Special Services	43,041	0	36,120		79,161
Mixed First Class (5301)	1,689	467	1,133	(3,290)	0
Mixed Periodicals (5331)	568	132	335	(1,035)	0
Mixed Third Class (5340)	7,780	1,789	4,701	(14,270)	0
Mixed Standard A (5341)	971	227	581	(1,779)	0
Mixed Standard B (5345)	391	89	231	(711)	0
Total	4,112,798	1,150,975	3,550,901	(0)	8,814,674

Table A-7T: Distribution Of BMC Direct, Mixed And Not Handling Tally Costs ($1,000's)

	Direct Costs	Mixed Mail Costs	Not Handling Costs	Distribute 5301-5345 Costs	Total
First-Class:					
Letters and Parcels	2,434	1,768	4,675	830	9,707
Presort Letters and Parcels	260	157	1,180	149	1,747
Postal Cards	0	0	0	0	0
Private Mailing Cards	54	35	143	22	253
Presort Cards	0	0	71	7	78
Priority Mail	796	487	1,086		2,369
Express Mail	12	6	238		256
Mailgrams	0	0	0		0
Periodicals:					
Within County	36	20	76	10	142
Regular Rate Publications	6,388	3,746	5,024	1,124	16,281
Nonprofit Publications	1,607	911	1,163	273	3,953
Classroom Publications	319	164	179	49	712
Standard A:					
Single Piece Rate	5,941	3,977	7,475	66	17,459
Regular Enh. Car. Rte.	7,746	4,612	6,472	71	18,901
Regular Other	67,996	42,343	66,980	672	177,991
Nonprofit Enh. Car. Rte.	726	415	570	6	1,718
Nonprofit Other	10,181	6,412	10,400	102	27,095
Standard B:					
Parcels Zone Rate	36,632	21,050	24,946	62	82,689
Bound Printed Matter	16,604	9,384	10,802	27	36,817
Special Standard	20,550	12,332	17,947	38	50,868
Library Mail	4,434	2,747	4,178	8	11,367
Penalty - U. S.P.S.	1,839	1,162	1,796		4,797
Free Mail	969	614	803		2,387
International Mail	13,420	8,347	11,792		33,559
Special Services:					
Registry	194	0	573		768
Certified	0	0	46		46
Insurance	14	0	18		32
COD	0	0	2		2
Special Delivery	0	0	10		10
Special Handling	0	0	1		1
Other Special Services	216	0	155		370
Mixed First Class (5301)	54	35	47	(135)	0
Mixed Periodicals (5331)	123	64	64	(251)	0
Mixed Third Class (5340)	492	258	259	(1,008)	0
Mixed Standard A (5341)	629	368	458	(1,456)	0
Mixed Standard B (5345)	281	171	215	(667)	0
Total	200,947	121,585	179,842	0	502,374

RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF UNITED STATES POSTAL SERVICE

USPS/TW-T-26. Please refer to TW-T-1 at page 34, and to USPS-LR-H-1, section 3.3 (especially 3.3.3 and 3.3.4.) You state that the Postal Service proposes to ignore "much more accurate distribution keys available to the Postal Service for distributing such costs [i.e., costs "migrated" from cost segment 3.3]."

a. Please confirm that the distribution keys to which you refer in the above quote are the distribution keys that implement the methodology described in USPS-LR-H-1, section 3.3.4. If you do not confirm, please explain fully.

b. Please confirm that your proposed distribution method for Cost Segment 3.3 would not alter the cost methodology described in USPS LR-H-1, section 3.3. If you do not confirm, please explain fully. As necessary, please provide a detailed description of each difference between your proposed methodology and that described in USPS LR-H-1, section 3.3, along with references to corresponding computer code and/or calculations in TW-LR-1.

USPS/TW-T-26.

a-b. The quote from page 34 of my testimony refers to window service as well as administrative costs. Attribution of window service costs is discussed in section 3.2 of LR-H-1, while administrative costs are discussed in section 3.3. Those sections describe which window service and administrative costs are to be considered respectively attributable, fixed and specific fixed in the traditional costing approach.

The method described in my testimony attributes the costs determined to be volume variable by the Bradley/Degen analysis of volume variability. The Bradley/Degen findings of volume variability are not consistent with the guidelines given in section 3 of LR-H-1. For example, section 3.3.3 specifies that costs of Express Mail personnel not handling mail (IOCS activity code 6231) should be treated as specific fixed. Degen, however, attributes a major portion of these costs in segment 3.1. Furthermore, he attributes them to many classes of mail, not only Express Mail. I attribute the same portion of the 6231 costs, but to Express Mail only, and in segment 3.3 rather than segment 3.1. Therefore, neither Degen's method nor mine follows the LR-H-1 guidelines for cost attribution. However, it is still far more accurate to attribute Express Mail costs to Express Mail than to spread them over all classes of mail.

As explained in Appendix B of my testimony, the distribution keys I use for the volume variable portion of the window service and administrative costs that Degen had misclassified as mail processing costs are the distribution keys used in the applicable sections of witness Alexandrovich's A and B workpapers. I presume that those distribution keys are consistent with sections 3.2 and 3.3 of LR-H-1. Spreadsheet MODSNH in TW LR-H-1 contains the calculations I used to redistribute window service and administrative not handling costs.

RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF UNITED STATES POSTAL SERVICE

USPS/TW-T1-27. Please refer to TW-T-1 at page B-7. You state that "6522 tally costs do not appear explicitly in the IOCS data base" for BMCs and Non-MODS offices.

a. Please confirm that activity code 6522 tallies are assigned uniform operation code 10, which corresponds to the administrative component (Cost Segment 3.3) in the IOCS-based separation of clerk and mailhandler costs.

b. Please confirm that activity code 6522 tallies (and the associated tally costs) do appear "explicitly" as part of the administrative tally sets for BMCs and Non-MODS offices. If you do not confirm, please explain.

USPS/TW-T1-27.

a. Confirmed.

b. Confirmed. Please note that this has no effect on the conclusions or the alternative cost distribution methodology presented in my testimony.

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USPS/TW-T1-28. Please refer to TW-T-1, Table B-6.

a. Does the distribution of activity code 6522 costs you present in Table B-6 allocate the activity 6522 costs among components approximately in proportion to the "Adjusted Non-6522 Costs"? If your answer is negative, please provide a table comparing your proposed activity code 6522 cost allocation to that which would result from a proportional allocation.

b. Assuming clerks and mailhandlers working in mail processing operations clock into and out of particular activities more frequently than their counterparts in window service and/or administrative activities, would it be reasonable to assign a larger portion of the 6522 costs to the mail processing component than would result from the proportional allocation? Please explain.

USPS/TW-T1-28.

a. Yes.

b. What you suggest might make sense if mail processing, window service and administrative activities were performed by three distinct workforces, and it could be demonstrated that the mail processing workforce did clock in and out more frequently than the other two. However, what has become clear in this case is that a substantial portion of window service and in particular administrative activities are being performed by employees who are clocked into mail processing MODS codes. Were that not the case, the issue of migrated window service and administrative costs would not exist. Furthermore, it is unlikely that these employees would be clocked into mail processing MODS codes if they did not, at other times, really perform mail processing activities. In other words, there must be many clerks that go back and forth between segments 3.1, 3.2 and 3.3. Degen's data show this effect for those employees who for whatever reason did not clock out of their mail processing related MODS numbers before engaging in window service or administrative activities. It is not known how many other employees go back and forth but do appropriately clock in and out before moving from one type of work to another.

Assume, for example, that a clerk in a small office works most of the day manually sorting letters, but that he is asked to temporarily fill in for a window clerk in order to be able to serve waiting patrons.[1] He clocks out of his current distribution

[1] Most of the window related not handling costs that appear in Degen's data under mail processing are clocked into the cost pools related to work at stations and branches, where distribution cases and windows are often in close proximity.

operation, goes to work at the window and returns a half hour later when he clocks back into his letter sorting operation. I don't know if this is typical of the situations leading to the mixing of window service and mail processing in Degen's data (except that Degen's data show it when the employee forgets to clock in and out), but if it is, then one could argue that at least in this situation, the ratio of clocking in/out time to work time is greater for the window service activity.

As with so many other issues relating to clerk and mailhandler costs, the real problem is the absence of facts to replace arbitrary assumptions. Until these facts have been established, I believe that it is better for the Commission to stay close to the traditional method of cost attribution, i.e., in this case to distribute 6522 costs among segment 3 components in proportion to non-6522 costs.

RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF UNITED STATES POSTAL SERVICE

USPS/TW-T1-29. Please refer to TW-T-1, pages 27 and 29.

a. Please confirm that you hypothesize that clerks who are "no longer needed for manual [or mechanized] letter sorting but still in the system" are commonly assigned to platform and opening unit operations, and that they clock into these operations in order to get paid. If you do not confirm, please explain.

b. If you confirm part (a), does your hypothesis imply that the proportion of clerk costs in those operations should have increased over time? Please explain any negative response fully.

c. If you confirm part (a), does your hypothesis imply that the proportion of not-handling costs in those operations should have increased faster than average? Please explain any negative response fully.

USPS/TW-T1-29.

a-c. Page 27 in my testimony refers to a hypothesis I formulated in Docket R90-1, as a possible explanation for the excessive increase in the costs attributed to Periodicals and some other subclasses. Page 29 discusses several recent facts that support the hypothesis. The hypothesis described refers to "manual operations, particularly opening units." I do not hypothesize that clerks are commonly assigned to platforms, which generally are the domain of mailhandlers, though not exclusively so.

Nor do I assume that all of the enormous increase in not handling costs between FY86 and FY96 took place at opening units and platforms. Such an assumption would make little sense, since the facts show that there have been orders of magnitude increases in not handling costs at letter, flat and parcel operations as well as allied operations. See my response to USPS/TW-T1-22, particularly tables USPS-22a and USPS-22b. There I show that not handling costs assigned activity code 5610, i.e. those associated with letter operations, grew from no more than $7.6 million in FY86 to $564 million in FY96. Similarly, 5620 not handling costs (flats operations) grew from no more than $5 million to $196 million, and 5750 (mixed all shapes) not handling costs, incurred at allied operations, grew from a maximum of $290 million to $1,098 million. In absolute terms, therefore, not handling costs have grown most at allied operations, but in percentage terms they have grown most at distribution operations.[1]

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[1] Allied operations do, however, have a much higher ratio of not handling to handling costs. That is why Degen's proposal to assign all responsibility for the high not handling costs at allied operations to the mail receiving direct handling at those operations is particularly devastating to the highly presorted mail that bypasses most piece distributions and therefore incurs a large portion of its total handling at the allied operations.

One predictable effect of these large increases has been a decline in productivity at all types of piece sorting operations except parcel operations, as demonstrated by the exhibit at Tr. 5565. The Postal Service has nevertheless realized an overall gain in productivity, because most letters today are handled at BCS's and OCR's, which are an order of magnitude faster than the LSM and manual sorting methods they replaced. That, however, is small consolation to Periodicals and other mailers who are stuck with the less automated processing methods, whose productivities have declined sharply.

These are not my hypotheses, they are facts. It is also a fact, not my hypothesis, that Periodicals processing costs have grown much faster than postal wage rates, despite considerable advances in mailer presorting, pre-barcoding, palletization and dropshipping as well as processing technology, all of which should have made Periodicals less costly for the Postal Service to handle. And it is a fact, not my hypothesis, that all of this occurred in the period that the Postal Service implemented letter mail automation, and that the Postal workforce today is larger than ever, despite all of the manual letter sorting avoided by automation.

It remains my hypothesis, however, that there must be some connection between these phenomena. That hypothesis is strengthened by the Postal Service's continued inability to produce any meaningful explanation for the large increases in Periodicals mail processing costs.

As I also show in my response to USPS/TW-T1-22, it appears that somewhat less than half of today's large 5610 (letter specific) not handling costs are incurred at the automated letter operations (BCS, OCR). The rest are incurred at manual letter cases and LSM operations, which in the past seem to have worked fine without such large not handling costs. I find USPS witness Barker's R94-1 explanation for the large not handling costs at highly automated letter operations credible, i.e. that they are incurred because employees are now watching machines rather than handling mail pieces. But no credible explanation has been offered by the Postal Service for the much larger pool of new not handling costs at manual letter and flat cases and allied operations. Until the Postal Service offers some credible explanation for why these costs, as well as break time and empty equipment costs, have grown so much, it is difficult to avoid the conclusion that these costs represent large inefficiencies in the postal system.

Regarding the tendency to send distribution employees to allied operations when they are not needed for piece distribution, thereby boosting the reported MODS productivity rates, I believe this practice already existed before automation. But the consequences under automation are much graver. In the late 1970's, when I was helping the Postal Service to collect mail characteristics data and develop mail flow models, I had the opportunity to spend a considerable time in various mail processing facilities, on all tours, and to talk to numerous industrial engineers, managers and clerks/mailhandlers. At that time, the LSM was the Postal Service's most advanced machine and showing high productivity on the LSM's a prime concern. It was widely recognized by facility

employees that once an LSM ran out of mail, its operators would quickly be sent to clock in at some "lower" operation.

Based on this experience, I do not find it surprising that in FY86 there were already considerable not handling costs at allied operations (though little compared to today) but hardly any at letter- and flat-specific operations. Nor is it surprising that this effect, still not acknowledged by USPS headquarters, grew by leaps and bounds after the Postal Service started to deploy letter automation on a large scale while at the same time increasing its workforce.

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USPS/TW-T1-30. Please refer to your response to USPS/TW-T1-7, and spreadsheet Items.xls, TW-LR-H-3.

a. Please confirm that the "counted" data in the tables provided at pages 2 to 8 of USPS/TW-T1-7 were obtained from datasets TW28emdr, TW28enmr, and TW28ebmr, USPS-LR-H-296. If you do not confirm, please explain fully.

b. Please confirm that there are several negative numbers entered in the "direct" columns of the tables provided at pages 2 to 8 of USPS/TW-T1-7, e.g., -$354,000 for the "Other" subclass category in Table 5-1m. If you do not confirm, please explain fully.

c. Please confirm that if you had computed the "direct" volume variable costs using the formula at page 10, line 19 of your testimony, you should not have obtained negative "direct" costs, since "TC(I)," "POOLCOST(K)," "W(K)" and "TCP(K)" are all positive numbers for every tally and cost pool. If you do not confirm, please explain fully.

d. If you confirm part c, please explain in detail how you obtained negative "direct" cost estimates. Please provide electronic spreadsheet calculations, SAS code, and or any other supporting documentation as necessary.

USPS/TW-T1-30. The source of the anomalies that you refer to is explained in footnote 1 at page 1 of Exhibit 5 in my testimony. In response to a Time Warner interrogatory (TW/USPS-5), questioning Degen's original estimates of counted item costs per subclass and item type, Degen filed revised estimates contained in USPS LR-H-296 and claimed that his original answers had excluded some counted international sacks. However, the sum of the subclass costs associated with counted international sacks indicated in Degen's revised answer exceeds the sum of "direct plus counted" item costs for international sacks in the IOCS data. Subtracting the "counted" international sack costs indicated by Degen in USPS LR-H-296 from the "direct plus counted" international sack costs in the IOCS data therefore led to a negative estimate of the "direct only" costs. Since this discrepancy does not affect my proposed distribution methodology, and the deadline for interrogatories to USPS witnesses had already passed when the discrepancy was discovered, I made no further attempts to resolve it.

a. Confirmed.

b. Confirmed.

c. Not confirmed. Since the "counted" data have been converted into "direct" tallies in the IOCS data base, and since the purpose of the tables referred to is to show the difference between the subclass distributions for the true "direct" costs (i.e., costs related to items with identical mail, normally provided only by bulk presort mailers) versus the costs that arise from counted items, the "direct" columns in these tables represent the costs extracted from the "direct" portion of the IOCS tallies minus the

counted costs as extracted from the datasets in USPS-LR-H-296. Negative numbers will therefore occur whenever the "counted" costs from USPS-LR-H-296 are larger than the total "direct plus counted" costs obtained from the IOCS tallies. That, of course, should not occur if the "counted" data in USPS-LR-H-296 are correct, since the "counted" costs alone cannot exceed the "direct plus counted" costs.

d. Please see footnote 1 at page 1 of Exhibit 5 in my testimony.

Part of the problem described in that footnote can be traced to the following example. Dataset TW28emdr includes, for each non-top-piece-rule item type, a breakdown by MODS cost pool and subclass of the volume variable costs that resulted from counting items of that type. In the case of international sacks, the total counted costs indicated, summed over cost pool and subclass, are $3.0055 million, including $2.6658 million for international mail. But my tabulation, from Degen's MODS data, of all direct plus counted item costs (all shown as "direct" tallies) for international sacks, gave only $2.6512 million, of which $2.3115 million was for international mail. When I subtracted the $2.6658 million in "counted" international mail costs from the corresponding $2.3115 million in "direct plus counted" costs, the inevitable result was a negative number.

DECLARATION

I, Halstein Stralberg, declare under penalty of perjury that the foregoing answers to interrogatories are true and correct, to the best of my knowledge, information and belief.

Halstein Stralb

Date: February 11, 1998